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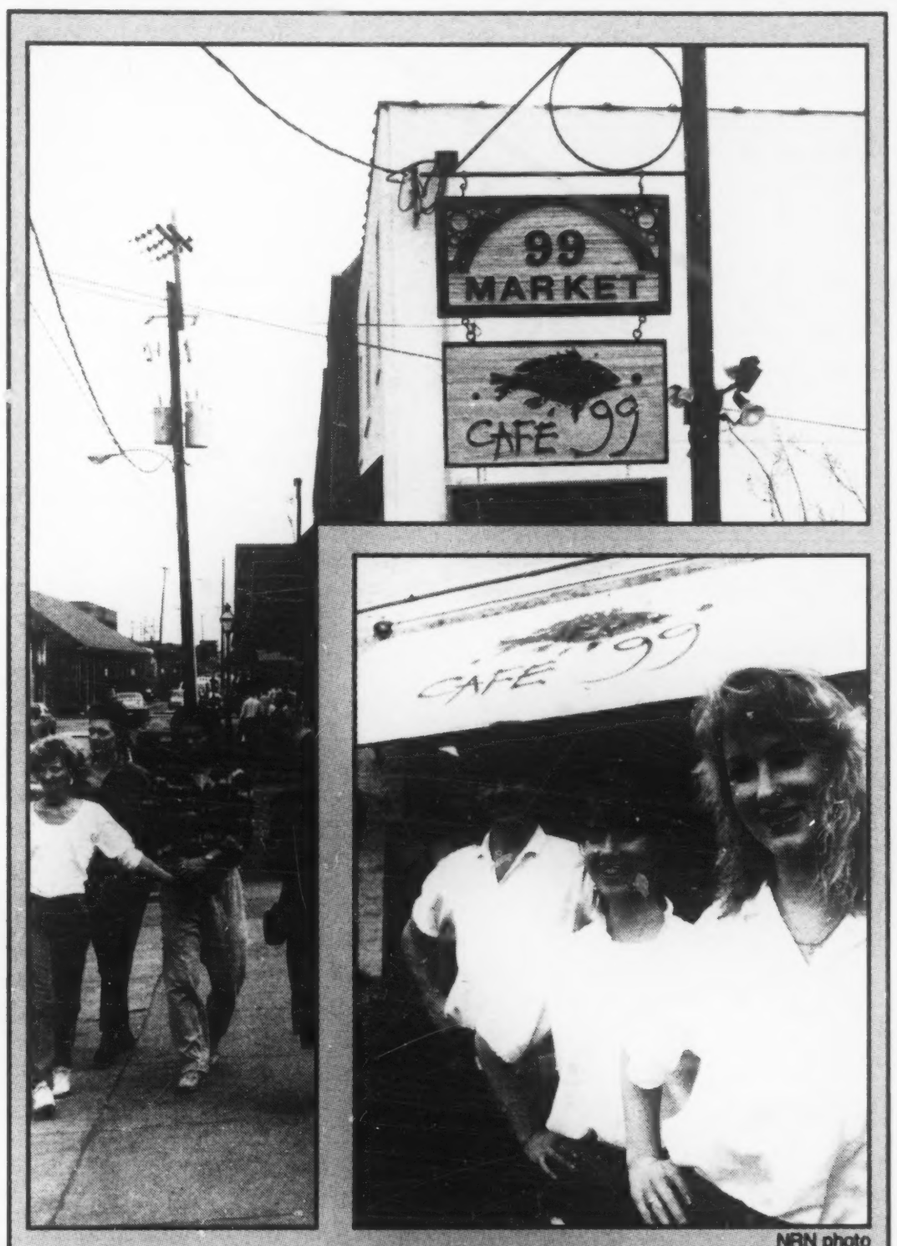

NRN photo

A Cafe 99 sign on South Market Street in Charleston lists daily specials. Inset: Servers Doug Graham, left, Robin Barnett, and Ann McCarthy at Cafe 99.

New concepts upgrade Charleston dining scene

By Jack Hayes

CHARLESTON, S.C. — The flash of south Florida and the flavor of south Georgia are beginning to spice a new dining ambience and earthiness in this upscale coastal city, where tourists order almost half the restaurant meals.

Some of Charleston's key operators who built their fame on seafood and low-country cuisine, served in traditional dining rooms, are opting for radically contemporary decor and updated

(See CHARLESTON, page 73)

New menu items target fickle consumer tastes

Hot competition blurs segment lines

By Peter Romeo

Food-service operators are planning to bombard consumers with new menu items this spring and summer in an attempt to exploit the public's mounting hunger for variety.

The effort promises to further blur the lines between market segments, with chicken chains adding seafood items and poultry "burgers," hamburger specialists showcasing chicken sandwiches, and dessert merchants avidly courting calorie counters.

As many chains discovered in past menu-expansion binges, the danger is that a bill of fare can quickly outgrow the capabilities of a concept's kitchen. To minimize that risk, many players are employing a fly-fishing approach, casting products into the market, retracting them when the allure wears off, and then brandishing another lure.

For instance, Arby's said it would rely this summer on

(See MENUS, page 73)

ON THE MENU
(A sampling of new or planned items)

Kentucky Fried Chicken: chicken "burger," reformulated Extra-Crispy Fried Chicken, Spicy Extra Crispy.
Hardee's: grilled-chicken sandwich.
Chili's: grilled-tuna salad.
White Castle: fried clams
Arby's: "The Tank," a submarine sandwich of ham, roast beef, cheese, and garnishes; roasted chicken club sandwich; chicken salad.

Source: Company and research reports

Restaurants ready 60-city fund-raiser to feed the needy

By Milford Prewitt

Hundreds of restaurants are expected to mobilize in a single night April 27 to raise money for food banks and other agencies engaged in the fight against hunger by participating in a nationwide food sampling and wine-tasting event.

SOS SHARE OUR STRENGTH
... a nationwide network of restaurants fighting hunger

Taste of the Nation, sponsored by Share Our Strength, a nationwide network of restaurants working to fight hunger, is the second annual attempt to rally restaurants in the war against impoverishment in America and abroad.

Besides Meals-On-Wheels — an industry-supported effort to feed the infirm

(See TASTE, page 4)

FOOD WATCH

Five-star food fest

SAN FRANCISCO — What do you feed 30 nationally recognized restaurateurs, their partners, employees, and companions when they get together for a good time?

If you're Larry Vito, executive chef of the Stanford Court Hotel, you'd serve:

- Warm Washington state-raised oysters with spinach-smoked squash butter sauce and a 1987 Chardonnay.
- Pie filled with saddle of rabbit, wild mushrooms, and leeks accompanied by a 1986 Pinot Noir.
- Charred tuna with Tobiko and a sparkling wine.
- Grilled breast of squab with a sauce of natural juices and foie gras paired with a Merlot, vintage 1984.
- A "savory" of goat cheese in phyllo envelope with sautéed apple, onions, and cracked walnuts.

For Kelly Mills, executive chef of the Four Sea-

(See page 4)

Alaskan oil spill jeopardizes salmon supply

By Joe Edwards

In the wake of the horrendous oil spill in salmon-spawning waters on the Alaska coastline, food-service operators could face higher prices and heightened concern on the part of consumers already worried about food safety.

At Ray's Boathouse, a popular seafood house on Shilsho Bay 10 miles outside downtown Seattle, "there's a great deal of concern" among customers about the impact of perhaps the worst oil spill ever on the salmon catch, according to owner Wayne Ludvigsen.

The Exxon Valdez oil tanker ran aground in late March on a charted reef about 25 miles from Port Valdez, spilling at least 240,000 barrels of crude oil into the pristine waters of Prince William Sound. The huge spill — the biggest in U.S. history — is threatening the fishing and tourism industries and the environment.

Fishermen said the initial impact on their industry will be the devastation of this year's herring roe harvest. Most of the $13 million herring roe harvest goes to Japan, where it sells for as much as $80 a pound.

In late April and May, tens of millions of young pink salm-

(See OIL SPILL, page 4)

CHARLES BERNSTEIN: NO SUBSTITUTE FOR HANDS-ON OWNERS — Page F3

SPEAK OUT ON FOOD SAFETY

Consumers seem more alarmed than ever about the foods they eat. Everything from seafood to salad bars is under attack.

What should food-service operators do about it?

What should the government do?

What are *you* doing?

Nation's Restaurant News wants your viewpoint.

So call the NRN Hot Line, toll-free, 24 hours a day, all this week.

A recorded message will ask for your statement. If you wish, you can also leave your name, title, company, and phone number so that an NRN reporter can contact you to confirm your statement for attribution.

Watch for a full report on the Hot Line calls in an upcoming issue.

NRN HOT LINE — 1 (800) 678-7711

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Vol. 24, No. 15 April 10, 1989

NEWS DIGEST

Grand Met to cut 550 people from Burger King's payroll

MIAMI — Contradicting predictions of a rapid decentralization, Grand Metropolitan PLC said it would slash Burger King's payroll by almost one-third primarily through layoffs at the chain's field offices.

The company said it would lay off about 550 people, with only 100 of the axings to take place at the burger chain's headquarters here. Grand Met stressed that the home-office firings would effect "non-restaurant" personnel.

Grand Met, after acquiring a company, usually decentralizes its operations to streamline the decision-making process. The company, which acquired Burger King and the rest of Pillsbury Co. in January, was expected to follow that approach with its new restaurant chain.

About a year ago Pillsbury pruned Burger King's headquarters payroll by eliminating positions and relocating people to field offices. The chain has 32 offices in the United States alone.

Suitor challenges DWG; second pursuer emerges

NEW YORK — The investment group here attempting to acquire DWG Corp., parent of the Arby's fast-food chain, said it would ask an Ohio court to overturn DWG's rejection of the suitor's $22-per-share takeover bid.

Meanwhile, a separate attempt to acquire Arby's and other DWG holdings is reportedly under way. An official of Dillon, Read & Co. told Dow Jones News Service that a client of his company is engaged in "casual" conversations with DWG about the purchase of Royal Crown, a subsidiary that includes Arby's.

Granada Investments, the New York concern seeking to buy all of DWG, has disclosed plans to shift its takeover battle into the courts of Ohio, where DWG was incorporated. In addition to challenging the rejection of its bid, Granada will seek to negate options that would enable DWG chairman Victor Posner to block the takeover, said Granada chairman Andrew Heine. Posner could wield the voting rights to 66 percent of DWG's total shares outstanding.

Callender unveils plans for new Calif. restaurant

SANTA FE SPRINGS, Calif. — Donald Callender, founder of the Marie Callender's restaurant chain, has disclosed plans to build a 10,100-square-foot Mediterranean restaurant here called the Garlic Press.

The Redevelopment Agency of Santa Fe Springs, a town southeast of Los Angeles, agreed to sell Callender up to 40,000 square feet of land for $10 per square foot. The agency will also spend about $200,000 to remove two oil wells and install a methane gas barrier under the restaurant site at Heritage Corporate Center.

Callender, who sold Marie Callender's Pie Shops in 1986 for $81 million, previously revealed he intends to build a pasta restaurant in Moreno Valley, near Riverside, Calif.

Congressman seeks law on seafood inspections

WASHINGTON — Contending that contaminated seafood causes almost a quarter of all food-borne diseases in the United States, a North Dakota legislator has asked Congress to mandate the inspection of every piece of fish and shellfish.

Rep. Byron Dorgan, a Republican, proposed that the Agriculture Department establish a "comprehensive, statistically sound" mandatory inspection program for "commercial processing of all freshwater and saltwater fish, shellfish, and their products which are used for human consumption."

Under the voluntary federal system now in use, only 20 percent of the fish consumed in this country is inspected, according to Dorgan. The limited check on United States-consumed seafood becomes particularly significant "as the importance of fish in the American diet increases," he said.

IDQ buys stake in Staff One to gain new franchise vehicle

MINNEAPOLIS — International Dairy Queen said it has acquired a 60-percent stake in Staff One, a personnel service here that places job hunters in low-level office jobs. Terms were not disclosed.

In disclosing the diversification, IDQ said the 1990s would provide an "attractive opportunity" for franchising a concept like Staff One.

IDQ franchises the Dairy Queen chain.

Jamco names Marks prexy, submits reorganization plan

LITTLETON, Colo. — Jamco Ltd., operator of the 115-unit Mr. Steak steak-house chain, said Donald Marks has assumed the president's title from Randall Pike, who remains chairman.

The appointment closely followed the filing of a plan to reorganize the company, which was granted protection from creditors under federal bankruptcy laws about 18 months ago. Pike has declined to detail the plan, noting that it has yet to be approved by a federal court.

Marks was executive vice president.

Gorin to sweeten menu with low-cal ice cream

ATLANTA — Perceiving an opportunity in the calorie-conscious market, Gorin's Homemade, a regional sandwich and ice-cream operator, said it would introduce a 96-percent fat-free ice cream this summer.

"Some people have just abandoned frozen desserts, and they're the ones we want to reach," said Mark Kaplan, chief executive of the 30-unit chain.

Wienerschnitzel adds dogs for springtime sales push

NEWPORT BEACH, Calif. — The 240-unit Wienerschnitzel fast-food chain has launched a five-item line of "Bigfoot" hot dogs that generated nearly half of all sales during limited market tests in Los Angeles.

Featuring 10-inch, 2.7-ounce wieners on 8-inch buns, the sandwiches range from a $1.39 mustard Bigfoot to a double-cheese and chili Bigfoot for $2.09.

A two-month-long introductory campaign begun April 1 calls Bigfoot a "legend in a bun." Advertising includes television commercials, radio ads, and point-of-sales promotions.

Ryan's licensee agrees to develop crab houses

NEPTUNE, Fla. — Family Steak Houses of Florida, a Ryan's franchisee based here, said it plans to open and franchise Rustic Inn crab houses under a joint venture with Rustic Inn Management Corp.

Family Steak said it has already earmarked $1.3 million for three new Rustic Inns.

In disclosing the deal, the steak-house operator noted that it owns 50 percent of the joint venture, which holds national franchise rights to the Rustic Inn concept.

Kettle agrees to purchase by top-level management

HOUSTON — The management of Kettle Restaurants has entered into an agreement to acquire the 201-unit coffee-shop chain for $7.8 million in cash and the assumption of $9.8 million in debt.

The agreement, which had been expected, ends the uncertainty that has clouded Kettle's future since a Florida concern called Rocyn presented a tender offer last year. That and other deals fell through for a variety of reasons.

The management's offer is contingent on obtaining financing. The group, led by Kettle chairman Danny Chambers consists of a cash offer of $6.50 per share. In addition, the group, known as KRA, has agreed to buy Kettle's debentures for $9.6 million.

FINANCIAL NEWS

Recap usurps Shoney's profits

But store-level margins, sales improve

By Rajan Chaudhry

NASHVILLE, Tenn. — Despite unit-level profit increases, interest expenses related to Shoney's Inc.'s 1988 recapitalization reduced the company's net income by $16.2 million for its first quarter ended Feb. 19.

Shoney's said net income fell 77 percent for the quarter, to $3 million, on a 15-percent year-to-year rise in revenues, to $242.4 million.

But year-to-year profits rose 53 percent before interest and taxes, the company said.

Shoney's operates and franchises Shoney's coffee shops, Captain D's seafood restaurants, and Lee's Famous Recipe Chicken restaurants as well as a group of specialty restaurants and the Shoney's Inn motel chain.

Although servicing debt is a drain on the company's cash flow, Shoney's improved operations are leaving it well-positioned to exceed earnings projections for this year and next, analysts asserted.

"[Shoney's has] made a distinct turnaround in sales momentum at the same-store level, and it's also made enormous progress on the margin side," said Laurie Lively, who tracks Shoney's for Oppenheimer & Co.

"All of that means that it's more than likely going to exceed the projections that it's made — particularly for fiscal '90. My earnings estimate for Shoney's is still 60 cents, but it could easily be conservative by 15 or 20 cents if interest rates stabilize."

Without the $25.7 million in interest expenses, Shoney's net income would have shown a 46-percent year-over-year increase for the February-ended quarter.

Comparable-store sales increased an average 5.1 percent — 2.9 percent after adjusting for menu-price increases — and pretax margins for the company's restaurant operations widened to 10.7 percent for the quarter from 8.2 percent in the first quarter of fiscal 1988.

The latest quarter also included a gain of $1.8 million from the leveraged buyout of the company's Restaurant Management Services Inc. division, a Shoney's spokesman said.

Shoney's continues to stay well ahead of schedule in paying down the $585 million in debt it incurred in the restructuring despite rising interest rates that are sure to affect its bottom line. Since the recap, the prime rate has rocketed to 11.5 percent from 8.5 percent.

At quarter's end, Shoney's had made $84.2 million in principal repayments, $62.2 million of which were prepayments. And it has fixed $225 million of debt that originally was being charged at a floating rate with another $22 million capped, a spokesman said.

The company has also proposed an offering of $175 million principal amount subordinated zero-coupon notes that would add about $50 million to its coffers for further prepayments. The offering would allow the company to receive a second 0.25-percent reduction in the interest rate on a major portion of its bank debt and to take substantial tax deductions on interest paid as well.

At year-end 1988, interest on the company's bank debt averaged 11.5 percent, said Taylor Henry Jr., Shoney's vice president of finance.

About $27 million of Shoney's debt repayments have come from the sale of marketable securities, $1.5 million from the sale of property, and $8.2 million through sale-leaseback agreements, a company spokesman said.

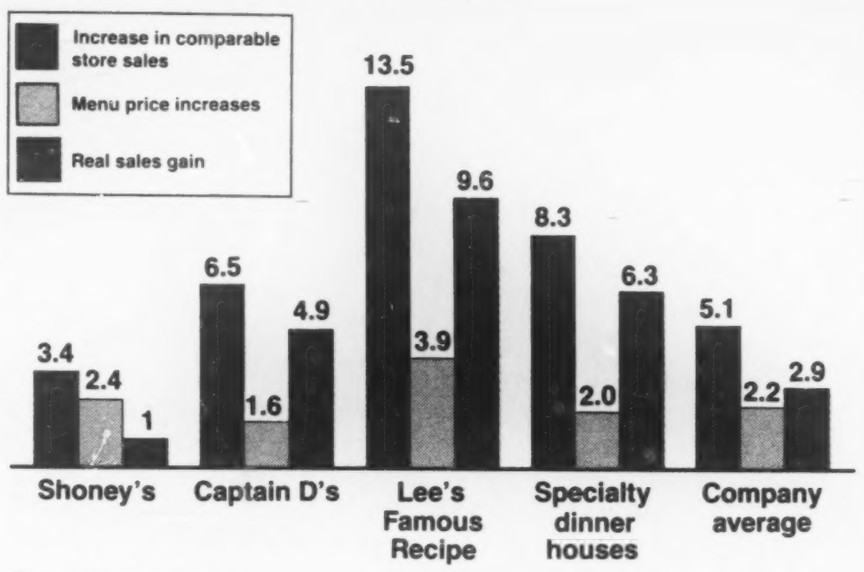
Last year Shoney's also trimmed inventory by $11.6 million and saved more than $2 million by eliminating 65 staff positions, Henry said.

At quarter's end, Shoney's had 1,543 restaurants in operation, 860 of which were franchised.

During the first quarter, Shoney's opened 22 restaurants, of which seven are company owned and 15 are franchised. The company also added four franchised Shoney's Inns.

SHONEY'S INC. 1ST QUARTER SALES GAINS

(in percentages)



Source: Company reports

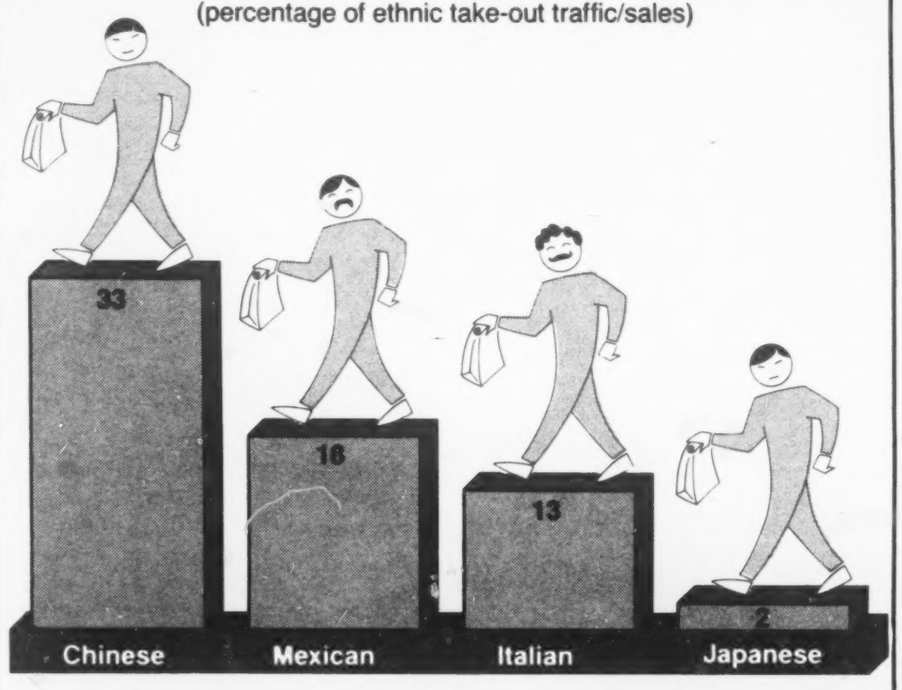
FACT FILE

A look at the statistics shaping the industry

CHINESE TOPS IN TAKE-OUT

Consumers are more likely to order Chinese to go than they were to take out Mexican food, ciao down on Italian fare, or show a yen for Japanese cuisine.

(percentage of ethnic take-out traffic/sales)



Source: GDR/Crest

NRN FINANCIAL DIGEST

Sbarro profits gain 46% for year

COMMACK, N.Y. — Sbarro Inc., operator of a chain of cafeteria-style Italian restaurants, said net income for the year ended Jan. 1 rose 46 percent, to $10.8 million, on a 35-percent increase in revenue, to $117.3 million, from the prior-year figure.

The gains reflect a 26-percent year-to-year increase in number of stores, to 318, and improvements in same-store sales, the company said.

Net income for the fourth quarter outstripped last year's profits by 54 percent, to $4.4 million, Sbarro said, while revenues for the quarter increased 37 percent, to $35.9 million.

Sybra pulled from NASDAQ trading

ATLANTA — The stock of Sybra Inc., an Arby's franchisee with about 115 units, was removed from over-the-counter trading because of failure to meet the National Association of Securities Dealers requirement that the company have at least 300 shareholders, Sybra said.

The company noted that trading probably would not be resumed.

Meanwhile, Sybra also said that Drexel Burnham Lambert Inc. has agreed to sell back 318,000 Sybra shares to the company for $22 a share. Sybra said it would make a tender offer for the remaining 140,000 shares outstanding.

Sybra — whose majority stockholder is Valhi Inc., which holds about 83 percent of shares outstanding — called the failure to meet the listing requirement and the stock buyback "unrelated coincidences."

Cucos boosts profits to $27,000

NEW ORLEANS — Cucos Inc. said profits increased to $27,399 for its second quarter from $1,535 in the year-ago period, while revenues rose 12 percent year to year, to $2.8 million.

Food and beverage sales for the quarter, which ended Jan. 15, increased almost 8 percent year to year, to $2.6 million, buoyed by the introduction of several new menu items, said Vincent J. Liuzza Jr., chairman and president of the 24-restaurant Mexican chain. Comparable-store sales also advanced at about an 8 percent rate over the prior year's quarter, the company said.

In addition, franchise fees and royalties more than doubled — to $216,000 —for the quarter, reflecting increases in both development fee revenue and royalties.

For the first half of 1989, Cucos said profits rose to $101,309 from a loss of $932,170 in the prior year's six months. The loss in the year-ago period resulted from a change in accounting for franchise development fee revenue, the company said.

Revenues for the January-ended six months increased more than 4 percent, to $6.6 million.

FOOD PRICE OUTLOOK

Potato prices moving up

Last summer's drought is being felt in **potato prices.** Supplies of raw potatoes are down 13 percent overall, although Idaho and Washington, the largest producers, had minimal drops. Biggest price increases are in **dehydrated potatoes. Frozen french fries** packers are being hit with higher costs for packaging. Expect price increases for fries.

Expect **egg prices** to settle a bit since Easter is over, but don't look for last year's prices. Producers have cut flocks in reaction to 1988's low prices, which were below breakeven for many. Higher feed prices have also pushed up egg production costs, and there's no sign of a letup soon.

Early March storms that hit **poultry** producers across the South did not do as much damage as had been feared. Prices have moved up on both **chicken** and **turkeys,** but observers said breeding operations were not disrupted badly, so hikes should be temporary.

California's asparagus supplies are strong, and prices have started their seasonal descent.

Lettuce producers in the lower San Joaquin Valley are starting to harvest, and lettuce prices are expected to remain low for several weeks, as the border desert areas start to wind down.

The **Strawberry** outlook is for one of the largest crops on record, especially in California, with prices well below last year's.

Dried bean prices continue to rise on heavy export demand. **Pintos** are moving up again, reaching toward record highs.

The **California almond** crop is in question. Sudden blooming might have been too great for adequate pollination by bees, with a short crop possible. Farmers expect to know for sure later this month.

— Patt Patterson

FOR THE LATEST STOCK MARKET TABLES, SEE PAGE 74

FOCUS | OPINION

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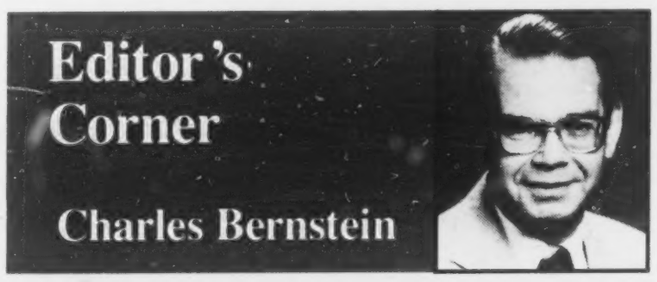
No substitute for hands-on owners

In the past year reports have been circulating that top restaurants are for sale throughout New York City as pressures tighten in the fine-dining category and owners seek to cash in their value.

There always seems to be one critical qualification in these rumors: "If the price is right." The old saying is that anything is for sale at a high enough price, and that may apply here.



We have heard reports that Tom Margittai and Paul Kovi would sell the Four Seasons restaurant after 12 glorious years of climbing sales — which have now flattened out — if they could obtain $30 million or more for it.

Another report is that the "21" Club might again be sold — if a price in the $20 million to $25 million range were offered. This once-great restaurant has fallen on tough times following a major remodeling and realignment. It has lost old-time devoted customers and not gained enough of the younger crowd.

Marshall Cogan apparently would like to sell "21" if he could recoup his original investment. His group is believed to have paid between $19 million and $23 million for the original shares.

Joe Baum indicated he might sell Aurora, his French restaurant jewel — "if the price is right." He has been concentrating his main efforts on the Rainbow Room, which is thriving after he masterminded a two-year project restoring its original grandeur.

Still another operation figuring in selloff reports is Docks, which has an established West Side popularly priced seafood restaurant and has opened another on the an East Side, said to be generating sales at close to an $8 million-a-year pace. Barry Corwin and Howard Levine, co-owners, say they would sell if they could obtain "a high price."

Why haven't these restaurateurs been able to obtain the price they sought? The answers vary in individual cases, but fewer people are willing to take a chance. No longer are investors such as Cogan willing to gamble on a restaurant deal as a lifelong dream or hobby.

The hard-nosed business facts in New York City militate against these deals. And the risk is immense since volumes in the $10 million or $15 million range are often required to clear a reasonable profit.

Potential owners of fine-dining establishments in New York and other major cities are shying away as gigantic rental, labor, food, and insurance liability costs threaten the profit structures. It is getting to the point where only Murray and Irving Riese, who own large chunks of New York City real estate, can make these deals.

The pressure is best summed up by one beleaguered restaurateur who declared: "Restaurants are fast disappearing in New York City. You could put in a sweater store and make more money."

That is an exaggerated view, but it does dramatize the seriousness of the situation. Actually, this is a business that requires that an owner take a personal interest in the restaurant and greet the customers in person.

Owners like Tom Margittai, Paul Kovi, Joe Baum, Barry Corwin, and Howard Levine are indispensable to an operation. There is no substitute for hands-on management and hands-on ownership. We are lucky that these owners have not sold the restaurants mentioned.

Restaurants that once appeared so glamorous to potential owners no longer seem to be such attractive investments. In the long run this is a beneficial trend, since it weeds out those who see restaurants as a hobby rather than as a demanding business rewarding those who give their own blood, sweat, and tears.

LETTERS

Right franchises can fly despite pitfalls in Japan

Editor, NRN:

I was very interested in your series of articles on food service in Japan, particularly one titled "Japan no paradise for franchising America," for several reasons. I work for the WDI Group Inc., which the article mentioned. I lived and worked in Japan for one year after graduating from Michigan State University with a restaurant management degree, and continue to learn something about the Japanese restaurant industry every day.

Your ideas were very well presented, and you seemed to have gathered important information and opinions from experts in the field. I agree that having franchises or partnerships in other countries can be difficult. Not only does the culture differ, but laws and business practices may be different.

Also, real-estate cost, food cost, labor, taxes, and other factors may all affect the bottom line differently than they would in the United States. For instance, the average monthly cost for a restaurant such as Spago in Roppongi is a staggering $25,000 per month.

It's no wonder that it is difficult to recognize a profit; therefore, many Japanese restaurant owners are experts in controlling food and labor costs in order to at least break even. Not only is real estate extremely costly, but since Japan imports most of the food supply, the average cost for the same item in the United States is considerably higher.

The WDI Group, which employs me, has the ability to recognize restaurant concepts, such as the Hard Rock Cafe and Spago, that would be suited to the Japanese tastes. In the financial interests of both partners, the WDI Group has introduced those restaurants to Japan. The WDI Group made an official proposal to Wolfgang Puck to build a Tokyo Spago that would be equivalent to Spago in Los Angeles in all aspects.

Puck accepted the joint venture, and the establishment of the restaurant began. The WDI Group, in order to protect and enhance the reputation of Spago, attempted to duplicate or "clone" every aspect of the concept. The interior, quality of food, level of service, and menu are as close to the original Spago as they possibly could be.

The WDI Group also operates and owns 50 percent of the Hard Rock Cafe, one of 13 Hard Rock Cafes around the world. Before the Hard Rock Cafe was built, the WDI Group opened verbal negotiations with Peter Morton, who was interested in expanding to other geographical regions.

As the restaurant was being built, Peter Morton and Isaac Tigrett, former owner of Hard Rock PLC, legally dissolved their partnership. Each was given the right to use the Hard Rock trademark in certain geographical areas.

Isaac Tigrett had all the rights to the Far East. During the suit negotiations between the WDI Group and Peter Morton ended; however, the construction and opening of the restaurant continued while the WDI Group tried to start negotiations with Isaac Tigrett.

After about two years the partnership was consummated, and both parties now share in a highly profitable venture. The Tokyo Hard Rock Cafe received a share of the rock memorabilia that makes the Hard Rocks so special. Also, with the continued assistance from Hard Rock PLC, the Tokyo Hard Rock has increased sales every year since it opened.

As far as "inscrutable accounting practices" go, many Japanese firms do what smart businessmen in the United States do: They have management contracts. Therefore, the company will receive a certain percentage or a fixed amount of total sales and, if there is any net income, perhaps a small percentage of the profit.

Also, the system of accounting in Japan is very much the same as in the United States, and Japanese business people are ethical, sophisticated, and knowledgeable when it comes to doing business. Perhaps there are a few isolated cases of unethical business practices that take place between franchisees in foreign countries and franchisers, and they usually result in court action and dissolution of the franchise or partnership.

It may be of interest to your readers if you could perhaps do more research from the Japanese perspective. There are difficulties and complications on the other end of the scale also. For example, operators from the United States do not always understand why concepts that are successful in the United States may not be successful in Japan or why expected profits may not be realized.

I enjoy reading NRN and feel it is an important publication for the food-service industry. I hope you can continue your research on Japan, because the market here seems to be in a state of constant change and growth — especially since the Japanese population has the disposable income to satisfy their discriminating palates.

Tokyo could possibly become the place to watch for new trends and fads in the restaurant industry.

— Tracy Furuichi
Public Relations Department
WDI Group Inc.
Tokyo, Japan

FOCUS | CHICKEN

Mother and daughter stop for a bite at Kentucky Fried Chicken, a family-oriented chain. Inset: Jack in the Box's new Grilled Chicken fillet sandwich.

OPERATORS PECK FOR PROFITS

As chicken consumption takes off, both major players and newcomers are rolling out new, innovative products to capitalize on the growing trend

By Rajan Chaudhry

With the popularity of chicken on the rise, chains are scrambling to add new chicken items to their menus and mounting aggressive marketing campaigns to support them.

And while the chicken boom is hatching increased profits for those crossing the road into the segment, traditional chicken chains are finding it tougher to scratch out a living among the new brood of rivals.

In the past year, Bojangles' closed 51 of its 71 company-owned stores stores at a cost of more than $18 million to parent company Horn & Hardart; Church's, the object of a "chicken tender" by rival Popeyes, closed more than 120 units and suffered losses of $14.5 million for the year; and Sis Corp., operator of the Sister's Chicken & Biscuits chain, filed for Chapter 11 protection from its creditors.

Even ruler of the roost Kentucky Fried Chicken has had its feathers ruffled by the new flock of competitors, which includes McDonald's, Wendy's, Arby's, Hardee's, White Castle, Jack in the Box, Old Spaghetti Warehouse, and Dairy Queen.

As a result, KFC, which claims a 46-percent share of the fast-food chicken market, said it now considers its primary competition to come from outside the chicken segment.

Richard P. Bermingham, ceo of Collins, a sizable KFC franchisee.

"We see our strongest competition coming from the mainstream quick-service restaurants, the hamburger and the pizza chains," says Richard Detwiler, Kentucky Fried Chicken spokesman.

KFC's latest marketing theme — "Cross the Road to Kentucky Fried Chicken" — is meant to establish it as an attractive option to other fast-food restaurants in the mind of consumers, Detwiler explains.

In 1988 KFC's U.S. systemwide sales grew 7 percent year-to-year, to $2.9 billion. Operating margins improved, and the number of units grew 3 percent, to 7,761, Detwiler says.

KFC is introducing a Chicken Fillet Burger — a breaded white-meat patty seasoned with KFC's blend of 11 herbs and spices — in an effort to develop its lunch business.

It is also looking to capitalize on the consumer demand for non-fried chicken by developing a char-broiled chicken-on-the-bone product and the proprietary broiling equipment that would fit its kitchens.

Other operations, including Hardee's, Arby's, Jack in the Box, and Carl's Jr., either have a non-fried chicken item in place or are rolling one out.

"Our research indicates that not only are consumers expressing a preference for more chicken in their diet," says Mo Iqbal, executive vice president of marketing for Jack in the Box, "but also they are expressing a preference for chicken that is prepared in a more healthful way, without skin and excess fat and grilled rather than fried."

San Diego-based Jack in the Box introduced a grilled chicken fillet sandwich, which sells for $2.79, to its more than 950 stores in February.

The skinless, boneless whole breast sandwich is served on a wheat bun with lettuce and two slices of tomato and is topped with honey mustard sauce and a slice of swiss cheese.

One year ago Jack in the Box introduced its Chicken Fajita Pita sandwich, $2.49, which represented about 9 percent of sales during its introduction, notes public-relations manager Durwin Long. Jack in the Box expects its new grilled chicken fillet to perform as strongly.

Hardee's, based in Rocky Mount, N.C., is rolling out a grilled chicken fillet sandwich. It will be introduced immediately into about two-thirds of Hardee's more than 3,000 company and franchised restaurants, according to public-relations director Jerry Singer.

In tests here, in Cincinnati, in Lexington, Ky., in Charleston, S.C., and in Tampa and Orlando, Fla., Hardee's sandwich accounted for more than 10 percent of sales, Singer explains.

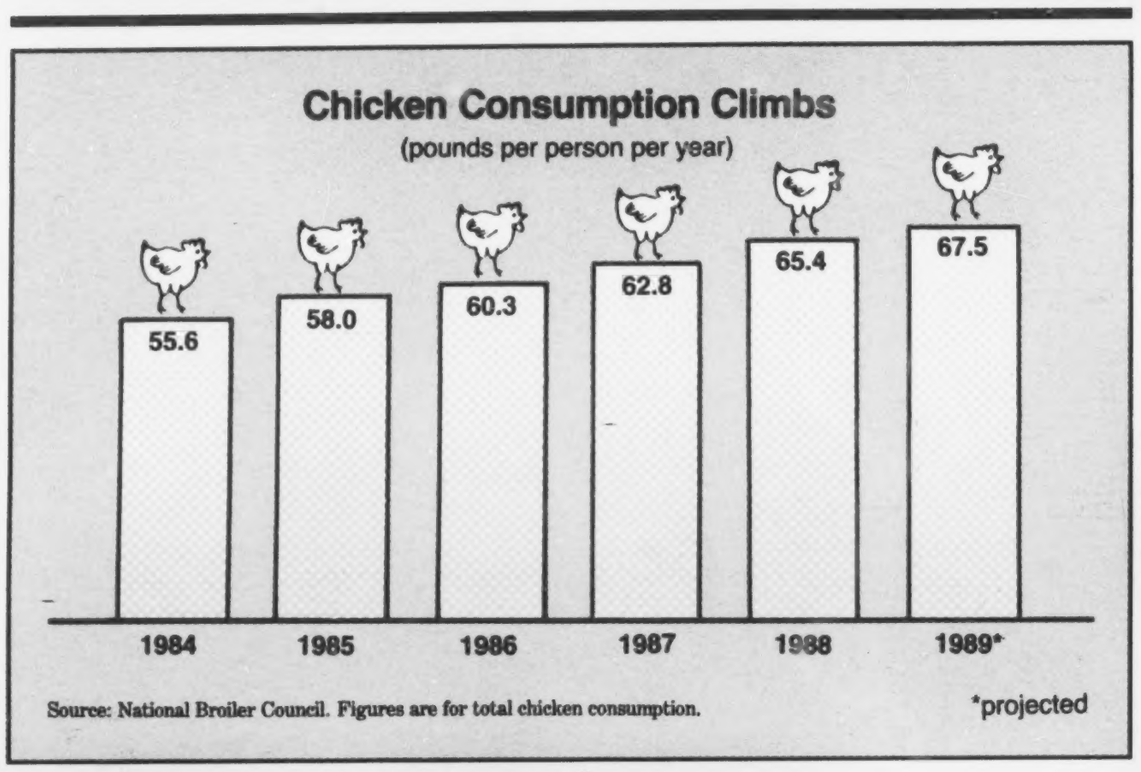
Beginning this month, Atlanta-based Arby's is making its roast-chicken club sandwich a mandatory offering in all stores, says Beth Touzet, Arby's product marketing manager. Stores were already required to carry its fried-chicken fillet sandwich.

Together with a new chicken cordon bleu sandwich, the chicken club and the fried-chicken fillet account for upward of 15 percent of sandwich sales at Arby's. All three sell in the $2.50-to-$3 range and beginning in February were being promoted together in a "Chicken choices at Arby's" marketing campaign.

Arby's is also testing other chicken

*(See **CHICKEN**, page F14)*

FOCUS | CHICKEN



CHICKEN TREND SOARS

(Continued from page F12)

sandwiches as well as a children's nuggets product, which is in test in Salt Lake City and Minneapolis, Touzet indicates.

"I think everybody in the fast-food industry is looking at different ways to use chicken because it's becoming such a popular menu item, Touzet says. "Like everybody else, we're trying to expand [our offering]."

Portland, Ore.-based Old Spaghetti Factory International has also joined the chicken fray.

The company, which operates 23 restaurants, is testing a baked chicken parmigiana dish in Portland, Seattle, and Denver, company officials note.

The boneless, breast-cut product, which comes with a side of spaghetti, sells for $6.10. In its best market, Seattle, it accounts for 7 percent of entrée sales, says Robert Barr, the company's director of marketing.

"We're committed to doing something with chicken," Barr explains. "We're just not sure what will fit in with our service and kitchen systems."

Recently, Columbus, Ohio-based White Castle introduced chicken nuggets to complement its breaded, breast-meat chicken sandwich, which sell for 65 cents to 70 cents, says spokeswoman Shirley Stapleton.

And Dublin, Ohio-based Wendy's recently rolled a promotional chicken Parmesan sandwich for the month of March.

A national poll of nearly 1,000 people, conducted by Wendy's, found that 42 percent of respondents eat chicken more than 10 times a month; 9 percent say they eat chicken 20 or 30 times each month; 55 percent prefer chicken prepared at home to be baked; and 42 percent prefer fried chicken when they are dining out.

At Lee's Famous Recipe Country Chicken, a 280-unit chain based in Nashville, Tenn., marketing director Harry Klapheke says his primary worry is not that newcomers will steal market share, but that they will force chicken prices up.

"Our main concern is the price of chicken," he says. "With everybody getting into it, what is this going to do to the supply side?"

Lee's is testing roasted chicken, Klapheke notes.

"We're adding it to appeal to the diet conscious," he explains. "We feel like there is a niche in the marketplace for that type of product."

Other than the addition of the roasted chicken, which requires an extra oven, Klapheke notes that Lee's has no plans to expand its menu or depart from its fried-chicken strategy.

KFC also plans to stick with its strength.

"We feel there's a lot of growth opportunity in fried products," Detwiler notes.

According to him, KFC's new lunch item, the Chicken Fillet Burger, is already in several markets. The sandwich sells for $1.79 in Louisville, Ky.

KFC began the push for lunch, which accounts for about 25 percent of sales, two years ago with the introduction of its Chicken Littles sandwiches, 1-ounce chicken patties on a bun.

But for at least one KFC franchisee the Chicken Littles were a flop.

Collins Foods International Inc., which operates 207 KFC franchises on the West Coast, introduced the Chicken Littles about a year and a half ago.

"If you lived in a cold climate and held them too long," jokes Richard P. Bermingham, Collins' president and chief executive, "you could use them as hockey pucks."

Despite a $42 million marketing kick-off campaign, the Chicken Littles never got off the ground, he says.

"Kentucky Fried Chicken," he adds, "needs a new product, and the West Coast needs a more healthful char-grilled product."

At the outset, Collins' KFC units were selling about 400 Littles a day and expected to raise that to 1,000 a day, he said.

"We never reached the goals that we had expected," Bermingham says. "It's still on the menu in most of our stores. But it hasn't received great customer acceptance."

Collins' KFC units now sell between 110 and 120 Littles per day, which account for about 3 percent of sales.

Bermingham notes that he expects the chicken burger, along with a soon-to-be-released reformulation of KFC's crispy chicken product, to help boost sales until the grilled product, which requires new equipment, can be introduced.

In Collins' Australian KFC units, he adds, the chicken burger accounts for 16 percent of sales. And crispy chicken represents 16 percent to 20 percent of Collins' overall KFC sales — up to 24 percent in its northern California markets.

Two types of crispy chicken are being reformulated, says Bermingham, one regular and one spicy. Both will be introduced by July, he said.

KFC's Detwiler says he was not aware of any plans to rework crispy chicken.

Collins has remodeled some 38 units in the past year and a half to include a drive-thru, bringing the number of units with drive thrus to about 165, Bermingham says. The remodelings are the single biggest boon to revenues, increasing sales by 47 percent.

For the third quarter ended April 30, Collins' KFC division posted a 6-percent increase in revenues, to $36.6 million, but its net income fell 10 percent, to $3.9 million.

A 27-percent increase in the minimum wage in California and Washington state and a 19-percent increase in chicken costs, to 74 cents per pound, were behind the profit drop, Bermingham says.

"At some point, it could make sense," he explains, for Collins to sell its domestic KFCs back to the franchisor and concentrate on its booming Sizzler and international divisions.

"People don't fall in love with fried food the way they once did," Bermingham says.

A Mrs. Winner's Chicken & Biscuits unit.

Winners' new strategy sends feathers flying

By Peter Romeo

BRENTWOOD, Tenn. — Wounded by escalating competition in the fast-food chicken market, Mrs. Winner's Chicken & Biscuits, a well-known regional contender here, is ready to fly the coop.

The 146-unit fried-chicken chain's operator, Winners Corp., recently hired Prudential-Bache Securities to explore such "strategic alternatives" as selling the business. Meanwhile, Winners is already thinning its flock by selling 11 units to Kentucky Fried Chicken — at a net loss of $350,000.

"The fried-chicken-and-biscuit segment of the food-service industry is dramatically different today from when the company first entered it in 1979," says Winners president, Lonnie Stout. "Today our two principal competitors are McDonald's for the breakfast daypart and reimaged, upscale Kentucky Fried Chicken stores for lunch and dinner."

The competition, he said, is "intense"

Searching for a new niche, Mrs. Winner's experimented with food bars, a new line of Southern entrées, and the conversion of units into miniature cafeterias. But "to implement such changes and remain competitive with the national chains would require a very major capital commitment," Stout notes.

The company prefers to focus on its 50 franchised Wendy's restaurants, which have "shown steady improvement during the past 18 months," he said.

Sales at the hamburger outlets averaged $662,000 per unit during 1988, topping the prior-year tally by 7.1 percent, according to Winners.

In contrast, sales at company-run Mrs. Winner's units averaged $604,000, compared with a mean of $605,000 for the prior year. The intake dipped to $149,000 during the fourth quarter, for a year-to-year decline of 2.6 percent.

The "significantly weaker" performance resulted in a 57 percent year-to-year decline in operating income for the Mrs. Winner's division. The operation generated only $1.4 million for 1988. Operating income for the Wendy's division, on the other hand, rose 70.6 percent, to $2.3 million.

Overall, Winners reports a $2.8 million net loss for the year, compared with a loss of $7.3 million for 1987.

With fewer restaurants in operation during 1988, revenues declined to $106.2 million from $112 million, for a change of 5.3 percent.

"The company continues to evaluate strategic alternatives for the Mrs. Winner's division," Stout says.

The operator discloses that it will receive $5 million in cash for the 11 units that are being sold to Kentucky Fried Chicken. Closing expenses and "certain mortgage obligations" will pare the amount to $4 million, the company says, noting that it will record a loss of approximately $350,000 during 1989 for the transaction.

Winners operates 121 Mrs. Winner's units and holds the franchise rights to 24 others.

Mrs. Winner's Chicken & Biscuits
Brentwood, Tenn.
Founded: 1979
Number of units: 146 (25 franchised)
Average sales per unit (company-operated): $605,000
Ownership: Winners Corp., a 51-unit Wendy's franchisee